

The Massachusetts Affordable Housing Trust Fund Guidelines

(Effective October 1, 2003)

**Issued By the Department of Housing and Community Development
Pursuant to Chapter 121D of the Massachusetts General Laws**

Prospective applicants for funding are urged to contact MassHousing for information about the Affordable Housing Trust Fund's policies and procedures prior to making an application.

The Massachusetts Affordable Housing Trust Fund (AHTF) was created with the enactment of Section 227 of Chapter 159 of the Acts of 2000, now known as Chapter 121D of the Massachusetts General Laws (the Statute). The AHTF is designed to provide resources to create or preserve affordable housing throughout the state for households whose incomes are not more than 110% of median income, as determined by the U.S. Department of Housing and Urban Development (HUD). The AHTF was funded at \$20,000,000 per year for three years (State Fiscal Years 2001 – 2003) from the state's General Fund. Funding for FY 2003 was later reduced to \$12.5 million. In June of 2003, the Legislature adopted language in outside Section 631 A of Chapter 26 of the Acts of 2003 to provide for the capitalization of the AHTF via bond authorizations. The budget language authorized bond issues totaling \$70,000,000 to capitalize the fund over a five-year period (FY 2004 – FY 2008). In addition to the purposes set forth in MGL c. 121D, the bond authorization specified that up to 2% of the authorization may be used for DHCD administrative costs directly attributable to the administration of the AHTF.

Section 1- Administrative Structure

The Affordable Housing Trust Fund is sited within the state's Department of Housing and Community Development (DHCD) and will be managed by the Massachusetts Housing Finance Agency (MassHousing) with guidance and assistance from a 15-member Advisory Committee comprised of local officials, housing advocates, lenders and developers.

- Department of Housing and Community Development
DHCD is the state's primary policy maker for affordable housing strategies and the conduit for public resources. Under the AHTF, DHCD shall provide general oversight of the AHTF, monitor progress, develop policies and guidelines dealing with its operation, coordinate the involvement of the Advisory Committee, consult with MassHousing with respect to the underwriting process, participate with MassHousing on a Selection

Committee to determine which projects to fund and secure final approval from the Director of DHCD for projects selected.

- Massachusetts Housing Finance Agency
MassHousing functions as the state's affordable housing bank. Its role in relation to the AHTF is to provide day-to-day management of the AHTF, underwrite applications for financing in accordance with the AHTF Guidelines in consultation with DHCD, participate with DHCD on a Selection Committee to determine which projects to fund, oversee the distribution and expenditure of funds for approved projects, invest and administer program funds, and provide regular reports to both DHCD and the Advisory Committee on the utilization of funds and the projects funded. MassHousing will carry out these duties under contract to DHCD.
- The Community Economic Development Assistance Corporation
CEDAC provides a variety of planning and development assistance to support the activities of non-profit organizations throughout the state that are related to the development, operation and preservation of affordable housing.
- The Advisory Committee
The Advisory Committee is established by the Statute and directed to make policy recommendations to DHCD and MassHousing regarding the AHTF's program and funding activities. The committee will be convened by DHCD on a regular basis to discuss these issues and to provide advice and guidance regarding the fund and its operations.

Section 2– Eligible Applicants

The Affordable Housing Trust Fund has been structured to ensure that many different types of organizations are eligible to receive financing. Eligible applicants include governmental subdivisions, community development corporations, local housing authorities, community action agencies, community-based or neighborhood-based non-profit housing organizations, other non-profit organizations, for-profit entities, and private employers.

In order to be considered eligible for financing, applicants must be current on all existing mortgage obligations with the Commonwealth or any subdivision thereof.

Section 3 – Eligible Activities

The purpose of the Affordable Housing Trust Fund is to support the creation or preservation of housing that is affordable to people with incomes that do not exceed 110% of median income, as defined by HUD.

AHTF funds will be focused on those activities that create, preserve or acquire housing throughout the state for the benefit of those households. AHTF funds may also be used for

permanent or transitional housing for homeless families and individuals, and for the modernization, rehabilitation and repair of public housing.

A housing development to be financed by the AHTF which receives subsidy, financing, tax credits or other assistance under a state or federal housing program, may contain market rate units, insofar as permissible under those programs and/or to the extent that they are necessary to support the creation of and/or on-going sustainability for the affordable housing units in the development. However, AHTF funds may not be used to support market rate units.

Section 4 – Types of Assistance

Funds from the Affordable Housing Trust Fund may be used to support the acquisition, development or preservation of affordable housing units. These funds may be used flexibly to ensure the financial feasibility of the projects. A wide range of financial assistance is available from the AHTF, including:

- ❑ Deferred payment loans.
- ❑ Low or no interest amortizing loans
- ❑ Down payment and closing cost assistance for first-time homebuyers.
- ❑ Credit enhancements and mortgage insurance guarantees.
- ❑ Matching funds for municipalities that sponsor affordable housing projects.
- ❑ Matching funds for employer-based housing.

This list is meant to be illustrative, but not exhaustive, of possible types of assistance provided through the AHTF. The level and type of assistance provided by the AHTF to a specific project must be the minimum amount necessary to achieve the desired degree of affordability. In instances where AHTF funds are provided as “gap” funding, the assistance provided will typically be in the form of a deferred payment loan.

Proposals will be underwritten and awards of AHTF funds will be structured to ensure that these funds will be repaid to the AHTF where at all feasible. Therefore, principles of sound underwriting and risk management will be applied when reviewing all proposals.

NOTE: DHCD is making available up to 100 Section 8 Project Based Vouchers from its own portfolio¹ to be used in conjunction with projects that create new units for families funded by the Affordable Housing Trust that will be ready for occupancy after January 1, 2005. Interested sponsors may seek Section 8 PBAs for a minimum of 10% up to a maximum of 25% of the total

¹ In addition, sponsors may seek project-based vouchers from local housing authorities. The Section 8 requirements are applicable to all LHA Section 8 project based vouchers as well.

units in a development from DHCD's portfolio of Section 8 vouchers (unless the assisted units are made available to elderly or disabled or families receiving supportive services, in which case DHCD may agree to increase the 25% limit). Section 8 contract authority cannot exceed 10 years, subject to the availability of adequate annual Congressional appropriation. DHCD may extend the term of the contract to achieve long-term affordability, contingent upon future availability of appropriated funds. Sponsors should be advised that 75% of the Section 8 project-based assistance awarded to a project must be made available to households with incomes not to exceed 30% of the area median income, with the balance available to households with incomes not to exceed 50% of the area median income. All tenant referrals for vacant units will be made from the appropriate DHCD Section 8 regional administering agency's waiting list. HUD rules prevent the use of a separate waiting list for a targeted special needs population. In accordance with HUD's Directive No. FR-4633-N-01, DHCD may make Section 8 project-based assistance available only to those projects located in census tracts with poverty levels below 20%. HUD has indicated that a waiver to this requirement is possible; however, at this time no additional guidance has been provided. All projects must comply with all requirements found in HUD Directive No. FR 4633-N-01. Project sponsors do not need to have a commitment of these vouchers prior to application to the AHTF for funding. Interested sponsors may call Mary Anne Morrison at DHCD (727-7130, ext. 630) for additional information on the Section-8 project based vouchers.

Section 5 – Funding Preferences

The AHTF is an essential resource for addressing the need for affordable housing. In selecting projects for funding, preference will be given to those projects that will create new housing units and projects, and that do so in a manner consistent with the Commonwealth's Principles for Sustainable Development (see Attachment A). In order to ensure that these limited resources are utilized in the most effective manner possible consistent with these principles, funding preferences and thresholds have been established to guide the decision-making process.

PREFERENCES

- Developments that produce “new” affordable housing units. For the purposes of these Guidelines, “new” affordable housing units shall include housing units constructed where none had existed previously, abandoned or fire-damaged residential units returned to residential use, and non-residential or non-residentially-zoned property converted to residential use.
- Developments that create units affordable to households with a range of incomes, with a special emphasis on units for households with incomes below 80% of the area's median income.
- Developments that include affordable units for families.
- Developments that include affordable units for the disabled and the homeless.

- Projects that propose the longest term of affordability. The minimum period of affordability for projects receiving AHTF funding is 30 years.
- Projects that are sponsored by non-profit organizations.
- Projects that use private funding sources and non-state funding sources to leverage the least amount of AHTF funds.
- Projects that are consistent with the Principles of Sustainable Development.

THRESHOLDS

In addition to the “preferences” listed above, there are two preliminary threshold levels of review applicable to all projects submitted for AHTF financing.

- Housing Certification of Community under Executive Order 418:
No project will be considered unless it is located in a community that is “housing certified” by the Department of Housing and Community Development under Executive Order 418.
- Readiness of the Project to Proceed:
Each project submitted for consideration for funding by the AHTF shall be evaluated with respect to its “readiness to proceed” based on the status of zoning, permitting, site control and other commonly used indicators. Funding preference shall be given to those projects that are mostly likely to be able to commence development in a timely manner upon approval of funding.

Section 6– Allocation of Assets and Timetable

These Guidelines outline how the AHTF funds will be used during FY 2004 of operation of the AHTF. In order to respond to the most pressing and current needs in the marketplace today, the \$20 million funds will be allocated as follows:

<u>Category</u>	<u>Initial Allocation</u>
Production and New Affordability	\$16,250,000
Discretionary	\$ 3,000,000
CEDAC Predevelopment	\$ 350,000
DHCD Administration	\$ 400,000

Production refers to the creation of “new” units. For the purposes of these Guidelines, “new” affordable housing units shall include housing units constructed where none had existed previously, abandoned or fire-damaged residential units returned to residential use, and non-residential or non-residentially-zoned property converted to residential use.

New Affordability refers to existing housing where a new level of affordability is provided that does not currently exist. This could occur in rental or ownership housing where the number of affordable units is increased; where a portion of existing units will be made affordable to households at income levels substantially lower than the units currently serve; or where the term of affordability on the units will be extended for a period beyond forty (40) years (*n.b.* A condition of AHTF funding is a minimum term of affordability of 30 years).

There will be an annual funding reservation of up to \$2,000,000 of the Production allocation which may be used to fund projects for the homeless or for individuals and families with incomes in between 0% to 30% of Area Median Income as defined by HUD. These funds also may be used to support the creation of Single Person Occupancy residences. Several exceptions to the general funding guidelines may apply to these projects:

1. In addition to the production of new units, these specifically allocated funds may be used for acquisition and rehabilitation of existing units.
2. The \$50,000 per unit limit may be exceeded for these projects.

Funds will not be expended as grants for repair, rehabilitation and modernization of public housing owned by local or regional housing authorities in FY '04.

The Discretionary funds may be allocated from the AHTF to finance worthwhile projects that do not fit in the “Production/New Affordability” category (e.g. renovation of existing housing), that do not meet the funding preferences noted in Section 5 of these Guidelines, or that reflect a particularly innovative approach to providing affordable housing.

The \$350,000 of AHTF funds allocated for CEDAC under Section 6 of these Guidelines shall be used to provide pre-development assistance to non-profit organizations undertaking projects that meet the preferences outlined in these Guidelines. It is anticipated that similar allocations will be made in FY '05 and '06 for a total aggregate allocation of \$2,500,000 for the purpose of predevelopment assistance.

Funds may be re-allocated during the course of the year between and among these categories in order to be responsive to the level of demand being generated by eligible applicants and to ensure a broad geographic spread of resources throughout the state.

Section 7 – Maximum Award Amount

Many worthwhile affordable housing projects have significant funding gaps. Because of the limitation on funds available to the Affordable Housing Trust Fund and a desire to fund as many

projects throughout the state as possible, a limit of the lesser of \$1,000,000 per project or \$50,000 per assisted unit has been established for allocation of AHTF funding for Production. A limit of \$2,000,000 of AHTF funding per project has been established for the Discretionary allocation.

Section 8 – Application Procedures

The Affordable Housing Trust will work with MassHousing, DHCD, MHP and CEDAC the four major affordable housing agencies in the state (the “Affordable Housing Agencies”) to provide an optimal allocation of public funds to worthy affordable housing projects.

Projects that are seeking only Affordable Housing Trust Fund funding may apply directly to the AHTF c/o MassHousing at any time. While the AHTF application process is rolling, it is our intent to have AHFT funding available to coincide with DHCD’s consolidated funding rounds. Projects that are seeking a combination of DHCD, MHP and/or MassHousing funding or financing should submit an application to the Affordable Housing Agency. The Affordable Housing Agency will underwrite the project, confirm that the host community of the project has E.O. 418 Housing Certification, make a determination of whether the project is ready to proceed, confirm that the project has a financing gap that requires AHFT funding and then refer the application to the AHTF c/o MassHousing.

AHTF funds may be substituted for funding by an Affordable Housing Agency funding at the discretion of the Affordable Housing Agency and the AHTF.

In order to streamline the application process, the following procedures shall be observed:

- ***New Applications:***

1. **NEW APPLICATIONS FOR TRUST FUNDING ONLY:**

New applicants, who wish to be considered **solely** for funding by the AHTF may apply directly to the AHTF.

Completed One Stop Applications for new proposals which are requesting consideration **only** by the Affordable Housing Trust Fund may be submitted at any time during the year to AHTF c/o MassHousing, for consideration by the AHTF, based on the criteria contained in these Guidelines. Completed applications should be submitted to the AHTF at:

The Affordable Housing Trust Fund
c/o Massachusetts Housing Finance Agency
One Beacon Street
Boston, MA 02108

2. **NEW APPLICATIONS FOR CONSIDERATION FOR AGENCY /AHTF FUNDING:**

New applicants who wish to be considered **both** by one of the Affordable Housing Agencies and by the AHTF shall submit an application **only** to the appropriate

Affordable Housing Agency. **These applicants may not submit an application to the AHTF.**

Applicants may NOT submit separate applications both to an Affordable Housing Agency and to the AHTF simultaneously.

Completed One Stop Applications for new proposals that are requesting consideration by **both** an Affordable Housing Agency and the AHTF should be submitted directly to the Affordable Housing Agency and will be accepted for consideration and underwritten based on the criteria contained in the policies and procedures of the Affordable Housing Agency. The application may then be referred to the AHTF for consideration as described in Section 9 of these Guidelines.

Existing Applications:

Projects for which applications have been submitted for funding consideration to any of the Affordable Housing Agencies and are currently under consideration may be referred by the Affordable Housing Agency to the AHTF for consideration.

• ***To obtain application forms:***

All applicants submitting new proposals to either an Affordable Housing Agency or the AHTF must file a formal application using the “One Stop” application form. Applicants can obtain “One-Stop” application forms as follows:

- MassHousing’s website www.MassHousing.com/dev/da_1stopmnpng.htm
- Telephone request to MassHousing’s offices (617-854-1359)

Section 9 – Underwriting, Selection and Approval Process

• ***Determinations by an Affordable Housing Agency:***

After submission of an application for consideration, an Affordable Housing Agency may make one of the following determinations:

- The Affordable Housing Agency may **commit to fund** the project in whole or in part.
- The Affordable Housing Agency may **commit to fund** the project **in whole or in part and refer** the application to the AHTF for consideration of funding the balance or for a specifically requested amount.
- The Affordable Housing Agency may **refer** the application to the AHTF for consideration of funding the entire amount **or**

- The Affordable Housing Agency may **decline either to fund or to refer** the project. The Affordable Housing Agency will inform the applicant as to the basis for its decision. In this event the applicant may modify its application as appropriate and apply directly to the AHTF.

- ***Review by MassHousing***

MassHousing will review and/or underwrite applications which have been submitted either directly to the AHTF by the applicant or referred by an Affordable Housing Agency according to these Guidelines. Upon submission of an application for possible funding by the AHTF, MassHousing will complete its review and underwriting within 45 days. Upon referral of an application from an Affordable Housing Agency that includes a complete underwriting file, every effort will be made by MassHousing to complete its review within 20 days of receipt.

- ***Recommendation by Selection Committee:***

The results and recommendations of the underwriting and review of all applications by MassHousing shall be submitted to a Selection Committee comprised of representatives of MassHousing and DHCD. The Selection Committee shall consider MassHousing's recommendations and determine which projects the Selection Committee will recommend to the Director of DHCD for final funding approval. In making its determinations, the Selection Committee shall consider the geographic distribution of projects within the state.

- ***Approval by Director of DHCD:***

The Director of DHCD makes the final decision as to which projects will be selected for funding by the AHTF. Upon approval of the final selections, arrangements for processing and funding shall be initiated immediately.

Section 10 – CEDAC

Under Section 6 of these Guidelines, \$350,000 of AHTF funds is allocated to CEDAC to be used to provide pre-development assistance to non-profit organizations for projects that meet the preferences outlined in these Guidelines. In accordance with the Statute, CEDAC will provide this assistance under the terms of a contract entered into with MassHousing and approved by DHCD.

Section 11– Preservation of Federally-Assisted Rental Housing

In accordance with the Statute, projects for the preservation of existing federally-assisted rental housing that have expiring affordable use restrictions are eligible to receive financing. Applications proposing the preservation of federally-assisted rental housing at risk of loss due to mortgage pre-payment, or non-renewal of rental assistance contracts, as set forth in Section 3 of the Statute, shall be evaluated according to the following criteria:

1. Immediacy of risk loss of long-term affordability, taking into account any and all use restrictions;
2. Presence of economic risk, as measured by indicators including but not limited to: market demand, building condition, and level of equity;
3. Availability of other preservation funding resources; and
4. Impact on existing tenants.

Section 12 – Waivers

In connection with the approval of selections for funding by the AHTF, the Director of the Department of Housing and Community Development may waive any provision of these Guidelines not required by the Statute, as follows:

- the project presents compelling or novel opportunities to alleviate the affordable housing crisis; and
- the grant of a waiver will produce a public benefit not otherwise available.



ATTACHMENT A to the FY 04
Guidelines for the Affordable Housing Trust Fund

Commonwealth of Massachusetts
**OFFICE FOR COMMONWEALTH
DEVELOPMENT**

Mitt Romney, Governor ♦ Kerry Healey, Lt. Governor ♦ Douglas I. Foy, Chief

Enhancing Our Commonwealth

The Office for Commonwealth Development is dedicated to careful stewardship of our natural resources, wise investment in public infrastructure and the expansion of opportunity for all our residents. The beauty and bounty of Massachusetts are the result of decisions made in past generations; our choices today must create value and opportunity for all our residents now and in the future. To improve the health and wealth of all our communities, we must draw together the creativity of our people, the vitality of markets, the resources of government, and the natural treasures we have inherited to design and build communities of diversity and delight for Massachusetts.

The quality of life in all of Massachusetts depends upon growth decisions made in each unique community. Planning for growth in a vibrant Commonwealth means working with those communities to integrate the diverse needs for housing, jobs, services, transportation and historic, cultural, and natural resources. In order to achieve these objectives, the Office for Commonwealth Development will:

- Encourage the coordination and cooperation of all agencies.
- Invest public funds wisely in smart growth and equitable development.
- Give priority to investments that will deliver living wage jobs, transit access, housing, open space, and community-serving enterprises.
- Be guided by the following principles:
 1. **Redevelop first.** Support the revitalization of town centers and neighborhoods. Encourage reuse and rehabilitation of existing infrastructure rather than the construction of new infrastructure in undeveloped areas. Give preference to redevelopment of brownfields, preservation and reuse of historic structures and rehabilitation of existing housing and schools.
 2. **Concentrate development.** Support development that is compact, conserves land, integrates uses, and fosters a sense of place. Create walkable districts mixing commercial, civic, cultural, educational and recreational activities with open space and housing for diverse communities.
 3. **Be fair.** Promote equitable sharing of the benefits and burdens of development. Provide technical and strategic support for inclusive community planning to ensure social, economic, and environmental justice. Make regulatory and permitting processes for

development clear, transparent, cost-effective, and oriented to encourage smart growth and regional equity.

4. **Restore and enhance the environment.** Expand land and water conservation. Protect and restore environmentally sensitive lands, natural resources, wildlife habitats, and cultural and historic landscapes. Increase the quantity, quality and accessibility of open space. Preserve critical habitat and bio-diversity. Promote developments that respect and enhance the state's natural resources.
5. **Conserve natural resources.** Increase our supply of renewable energy and reduce waste of water, energy and materials. Lead by example and support conservation strategies, clean power and innovative industries. Construct and promote buildings and infrastructure that use land, energy, water and materials efficiently.
6. **Expand housing opportunities.** Support the construction and rehabilitation of housing to meet the needs of people of all abilities, income levels and household types. Coordinate the provision of housing with the location of jobs, transit and services. Foster the development of housing, particularly multifamily, that is compatible with a community's character and vision.
7. **Provide transportation choice.** Increase access to transportation options, in all communities, including land and water based public transit, bicycling, and walking. Invest strategically in transportation infrastructure to encourage smart growth. Locate new development where a variety of transportation modes can be made available.
8. **Increase job opportunities.** Attract businesses to locations near housing, infrastructure, water, and transportation options. Expand access to educational and entrepreneurial opportunities. Support the growth of new and existing local businesses.
9. **Foster sustainable businesses.** Strengthen sustainable natural resource-based businesses, including agriculture, forestry and fisheries. Strengthen sustainable businesses. Support economic development in industry clusters consistent with regional and local character. Maintain reliable and affordable energy sources and reduce dependence on imported fossil fuels.
10. **Plan regionally.** Support the development and implementation of local and regional plans that have broad public support and are consistent with these principles. Foster development projects, land and water conservation, transportation and housing that have a regional or multi-community benefit. Consider the long-term costs and benefits to the larger commonwealth.

June 20, 2003